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THE SITUATION IN AUSTRIA

ORE 13/1

20 February 1947

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Document No. 001
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Class. CHANGED TO: TS S C
DDA Ltr 4 Apr 77
Auth: DDA REG. 77/1763
Date: 10/1/78 By: 023

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Date 21 Jul 92

HRP 92-4

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THE SITUATION IN AUSTRIA *

SUMMARY

The four occupying powers have recognized a coalition government in Austria which was formed after the national elections of November 1945. The authority of the government is still limited by the conditions of four-power occupation and particularly by the hostile attitude of the USSR. The three-party coalition, however, is genuinely representative of a population which, except for an extremely small Communist minority, is almost evenly divided into an agrarian Catholic party and a trade union socialist party. Both of these parties are united in their opposition to the demands of the USSR and are anxious to begin the reconstruction of the country under their own direction. The Communist Party has almost no indigenous support and is able to influence government policy only through Soviet assistance.

The USSR desires an Austrian regime subservient to Soviet policy. Unsuccessful in its attempts to influence the Austrian Government by infiltration and intimidation, the USSR has concentrated on establishing control over the Austrian economy. The USSR has implemented its policy in Austria by propaganda aimed at discrediting the government and by actions designed to disrupt its political and economic authority. In order to further their economic aims, the Soviets have removed industrial machinery on a large scale, seized industrial assets, and forced factories to produce for the USSR. The Soviets are now attempting to induce the Austrians to agree to a settlement of Soviet claims to alleged German assets in eastern Austria which will give the USSR permanent control over important industrial properties in this area. The Soviets want a treaty which imposes maximum restrictions on the sovereignty of the Austrian Government and legalizes future Soviet interference in Austrian affairs. Confronted by political difficulties and Anglo-American support for the present government, the USSR would probably accept as a temporary expedient a government under Soviet influence through dependency upon economic ties with Eastern Europe. The Soviets, however, are unlikely to make any major concessions for the sake of early agreement, since the best interests of the USSR may be served by a protracted military occupation of Austria, whose government is considered fundamentally anti-Communist.

* Only limited coordination of this report with departmental intelligence agencies has been attained. Substantial dissent, if any, will be submitted at a later date.

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The UK and France wish to terminate the present quadrilateral occupation, which they regard as a hindrance to Austria's economic recovery and to the establishment of stability in Western Europe. They wish to insure, however, that Austria will not be driven by either domestic or foreign pressure into a Soviet or German bloc. The British, therefore, have extended to the Austrian Government a credit of 10,000,000 pounds. The French, while agreeing with US and UK policy, have stated that they are unable to extend any credits. Furthermore, the French have made arbitrary requisitions of food and industrial products in their relatively unproductive zone of occupation. On a national policy level, however, they have combined with the US and UK in an attempt to conclude the treaty and terminate the occupation.

The Austrian people are primarily interested in putting an end to the occupation, which they regard as an intolerable burden on the nation's depleted resources. They realize that it is necessary "to make peace" with the Soviets, yet they do not desire to come under Soviet domination in order to accomplish this. The Austrian Government therefore wants to steer a middle course between Eastern and Western Europe. This policy is most difficult to effect in view of the fact that Austria requires close economic relations with the central European and Danubian states now under Soviet domination. The future of Austria as an independent state will rest upon such support from the West as will enable her not only to recover economically but also to bargain with her Soviet-dominated neighbors on a footing of equality. Lacking this support, Austria will inevitably be forced to yield to the influence exerted by the USSR.

Further discussion of the situation in Austria is contained in the Enclosure hereto.

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ENCLOSURE

Important Factors in the Austrian Situation.

Government. The present Austrian Government, which was formed after the national elections of November 25, 1945, was recognized by the four powers represented in the Allied Commission "with due regard" to the supreme authority of the Allied Commission. The government operates with relative freedom but is still economically at the mercy of the occupying powers. The new control agreement adopted by the Allied Commission on June 28, 1946, gave the Austrian Government greater power; however, the Soviets have prevented the government from exercising its additional authority in eastern Austria and therefore this agreement has not materially altered the relationship between the Allied Commission and the Austrian Government.

The Austrian Constitution is essentially based on the constitution of 1920 as amended in 1929, supplemented by constitutional laws which grant the Federal Government certain transitional emergency powers.

Political Parties. The national and provincial elections of November 1945 resulted in a victory of the liberal pro-western parties, the Catholic People's Party and the Socialist Party. The Communist Party, despite a lavish propaganda campaign, was thoroughly defeated, securing only four out of 165 seats in the lower house of Parliament. The Soviet Command was clearly surprised by the elections, particularly in the ability of the Socialist leaders to retain their hold over the pauperized industrial workers of eastern Austria. Backed by the three Western Powers, Socialist and People's Party leaders have worked together and have prevented the Communists from infiltrating their ranks. With rare exceptions, the Soviets have refrained from acts of violence against the two liberal organizations, even though they regard them as hostile to the USSR.

The US, UK and France have not discriminated against any of the three political parties, although they prefer the two liberal groups.

Pan-Germanism no longer exists as a political program. All three political parties are now opposed to a union with Germany.

Denazification. Denazification, which for the past year has been substantially in the hands of the government, is difficult because more than 500,000 persons are involved. The two major liberal parties are opposed to a strict denazification; the Soviets, on the other hand, favor a program that would disrupt Austria's political and social order if it were applied. The Soviets recently agreed, however, in the Allied Commission, to certain modifications of a proposed Austrian law which provides for a program that is strict rather than punitive. Parliament, although generally opposed to the severity of the Allied Amendments, incorporated them in a law which was recently passed.

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Displaced Persons. According to official Austrian figures, there are more than 500,000 displaced persons in Austria, concentrated in the US, British and French zones. Many of these are non-repatriable nationals of Eastern European and Balkan origin. They constitute an Allied rather than an Austrian responsibility. Both the USSR and the Austrian Government are vitally interested in disposing of these persons. The Soviets want them forcibly repatriated as being hostile to the USSR as well as to nations under Soviet influence. The Austrians, on the other hand, are anxious merely to get rid of them because they constitute a grave social menace as well as a future economic liability.

Although the US, UK and France desire to solve this problem, they have been unwilling to force these displaced persons to return to their nations of origin, since persons surrendered to the Soviets have frequently been shot.

Reparations. The Soviets are construing the Potsdam Agreement with respect to German assets in Eastern Austria in the broadest imaginable sense in order to serve immediate Soviet needs and to gain permanent control over a large proportion of Austria's economy. It is evident that they will drive a hard bargain, because it is the only clear means remaining to them by which they can influence the anti-Communist Austrian Government.

The official Soviet definition of German assets as stated in July 1946 includes (1) German property in Austria before March 15, 1938; (2) German property transfers to and capital investments in Austria after that date; and (3) Austrian property acquired by the Germans after 1938 at a fair price. The last proviso is interpreted by the Soviets in a manner wholly favorable to themselves.

In the Allied Commission, the US has opposed the Soviet interpretation of Potsdam, and, therefore, the mass Soviet seizure of industry in eastern Austria. The US has given wide publicity to its return to the Austrian Government of German properties in the provinces of Salzburg and Upper Austria as a means of arousing public opinion against the Soviet policy. The British also oppose the USSR position, and have endeavored consistently to place the discussion of German assets on a quadripartite basis. Although the French have generally supported the US-UK position in the Allied Commission, they have arbitrarily removed certain factories in their zone and have requisitioned badly needed foodstuffs.

Agricultural and Industrial Production. In addition to suffering from ravages of war, the Austrian economy has suffered from the isolation until recently of eastern Austria, arbitrary Soviet activities in that area, and from French zonal requisitions. The agriculturally rich zone of eastern Austria has not only been forced to feed a relatively large Soviet army of occupation, but has also been drained by Soviet removals of livestock and farm machinery as well as by seizures of agri-

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cultural estates. Austrian industry, also concentrated in the Soviet zone, was first crippled by mass Soviet removals of machines. Later production, sorely needed in the reconstruction of Austria's economy, has been in part diverted to the Soviet Army and the USSR itself. The Soviets have insisted that factories producing for the USSR receive preferential treatment in raw materials and workers' food rations. This discrimination serves to disrupt the national economy and further embarrass the Austrian Government. The Austrian Government has attempted, by measures such as the Nationalization Decree, to minimize Soviet control over the economy of eastern Austria, but the USSR, in violation of the control agreement of June 1946, has consistently refused to allow any such measures to be enforced in its zone.

Military occupation of the three Western zones in Austria has delayed economic recovery without basically weakening its industrial potential. Although the level of agricultural production is satisfactory, the food situation has remained desperate since, unlike Soviet-occupied eastern Austria, these areas are not self-supporting. Vorarlberg and the Tirol in particular have suffered as a consequence of French military requisitions. Austria's industrial potential was expanded between 50 and 100 percent after 1938. In contrast to eastern Austria, the western areas occupied by the US, UK and France retain the bulk of this expanded capacity. Industrial recovery here has nevertheless been slow to date because of shortages of raw materials and skilled workers, and because the importation from Germany of essential spare parts has been stopped.

International Trade. Up to the present, international trade has been largely limited to interim barter arrangements. The long-term credit agreement already reached with the UK, as well as similar agreements about to be negotiated with the US, Sweden and Switzerland, will serve to increase trade with the Western Powers, as well as to improve Austria's bargaining position in future trade negotiations with Soviet-dominated states.

The French for their part propose to negotiate a barter-type agreement with the Austrian Government for products produced primarily in the French zone, including electric power generated in the province of Vorarlberg.

Result of the Programs Followed in the Various Zones of Austria.

The most outstanding event of the occupation period was the resounding defeat of the Communist Party at the last election. The refusal of the pauperized common people to forsake the standards of liberal government marks a defeat for the Soviet program in this country.

For the rest, it is difficult to distinguish between the damage done by the war and the occupation. The economic situation has been

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greatly aggravated in eastern Austria by the Soviets, and, to a lesser extent, in the Tirol and Vorarlberg by the arbitrary requisitions and seizures of the French. This in turn has adversely affected the economy of the zones presently occupied by the US and UK.

Current Immediate and Long-Range Objectives.

Soviet. Political. The immediate USSR aims are to discredit the present government by disrupting its authority in eastern Austria. The Soviet-influenced press demands a new election, while the Austrian Communists have made efforts to win over dissatisfied elements from both the People's Party and the Socialist Party. As a long-term objective, the USSR desires a regime subservient to Soviet policy. The Soviets, therefore, want a treaty which imposes maximum restrictions on the sovereignty of the Austrian Government and legalizes future Soviet interference in Austrian affairs. Pending accomplishment of this objective, they will probably accept as a temporary expedient a government influenced by the USSR through dependency upon economic ties with Eastern Europe. The Soviets, however, are unlikely to make any major concessions for the sake of early agreement, since the best interests of the USSR may be served by a protracted military occupation of Austria, whose government is considered fundamentally anti-Communist.

Economic. The USSR desires to weaken the Austrian economy. This has so far been achieved by the mass, indiscriminate removals of industrial machinery, and by forcing a large proportion of the industry remaining under Soviet control to produce for the USSR. The amount of food available for the local population has been reduced by the requirements of the relatively large Soviet army of occupation.

The Soviets doubtless hope to exert a long-term influence over Austrian economy by forcing a settlement of the German assets question which will leave them in control of important industrial assets. They have already indicated an unwillingness to relinquish their economic position in a cash settlement. The Soviets probably expect to extract further concessions before they will permit Austria to establish necessary commercial relations with Soviet-oriented states in the Danube Basin. With respect to trade with Germany, the Soviets have taken the position in the Allied Commission that Austrian purchases in Germany should be limited to items which cannot be obtained from the United Nations.

British and French. Political. The British and French are anxious to conclude an Austrian treaty in order to terminate the burden of quadripartite occupation and complete the restoration of Austrian sovereignty. They are also interested in reaching a solution to the problems of denazification and displaced persons which will promote the political stability of the present regime. Both the British and French desire to insure the long-term independence of the Austrian Government and prevent it from either joining a regenerated Germany or being compelled to serve Soviet aims.

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Economic. The British have an immediate concern in the problem of German foreign assets in eastern Austria because they have interests in some of the properties under negotiation; for this reason as well as for reasons of national policy, the British and French are anxious to prevent the Soviets from consolidating their present position in Lower Austria and the Burgenland.

As in the rest of Western Europe, the British want to resuscitate the Austrian economy as quickly as possible in order to promote stability. To this end, the British have extended a credit to the Austrian Government. While the French have indicated that they are unable to extend credits to Austria, they have shown an interest in barter-type agreements. Both the UK and France want to prevent Austria from becoming economically dependent on either the USSR and its satellites or Germany.

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